

Cloak & Dagger Title
Soviet Reveals -
Industrial programs
Foreign Trade and aid

New Soviet "Collective" ~~Admiral~~ in roughly as long as Eisenhower's

Last year and a half have been really revealing

And last 3 months have given it greatest crisis

Slow developing and feeling way 53 to early 55

Liquidation Beria - subordinating Secret Police - at least
pretense of rule of law.

Peace in Korea and Indo-China.

Heavy and Light Industry squabble leading to demoting Malenkov

April '55 Dramatic new look Foreign Policy

Swift-surefooted moves

Austria

Bandung (taking heat off Formosa straits)

Jugo make up

Arms to Arabs

Geneva

Armed Forces reductions

Trade drive in undeveloped areas

Collegium or Collective Dictatorship has worked much better than

capricious obscurantist absolutism of Stalin.

Don't get too excited about rival groupings - in one sense all
Stalinists - in another none wants full return.

All participate in Presidium - negative votes recorded

Army not separate political force though influential key political
questions as in Satellites as Radford and JCS are.

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Renewed importance Central Committee as Court of Appeal down

130 + 120 alternates roughly 50-50 top Party; top administrators and handful of soldiers, writers, etc.

cf. U.S. Cabinet and State Party Chairmen and 100 top industrialists and financiers.

(Heavy-Light industry)

Malenkov-Molotov (make up with Jug) Cases

Crucial meetings ~~this very subject~~ ^{currently}.

Climax 20th Party Congress last February - Public and Secret

Themes: Non inevitability of War.

Many roads to socialism

Obliteration of Stalin

Secret Speech - Denigration - as if made George Washington into Al Capone or Ben Arnold - Why?

Needed to settle substantive issues as against dissenters at high and medium level . . .

For 25 years all achievements of Soviets attributed to Stalin.

Hence, new leadership could not alter policies he had advocated without frankly taking issue with record and personality of Stalin.

All informed Soviet citizens hated and feared Stalin. Doctor's (Jan '53) plot renewed psychosis of 30s terror. Hence, the key elements of population could be wooed only by associating him exclusively with these evils and picturing the new leaders as helpless near victims.

Masses perplexed but would come round.

Foreign parties discombobulated but Soviets

- a) Never subordinate domestic decisions to foreign policy repercussions
- b) New "soft" foreign policy was nowhere near so dependent on non-disciplined hard-core foreign parties as was the old intransigent threatening policy of Stalin.

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Our publication upset timetable and clearly added to confusion outside Soviet Union.

All this came awry in Satellites --

What Soviet tried to do:

Loosen reins - abandoned dictating details of administration

Wanted "sympathetic" "allied" regimes - Commies but not automatons or puppets.
Almost a commonwealth

Two phases - straighten out party leadership
get increasing popular support.

What happened in Poland -- (Poznan)

Conditions awful and party leadership knew drastic measures needed and real hero

Gomulka dusted off but drove hard bargain

Soviets and puppets tried Oct 17 to pinch Gomulka and pull back

Gomulka one jump ahead -- had gained control of secret police and armed workers and students -- Kremlin leaders found couldn't "bend" him and couldn't "break" him without all out military struggle--settled reluctantly - danger continues . . .

What happened in Hungary -

Moved much too slowly and at last moment Gero a colorless interim middle-of-reader inter Rakosi and Nagy panicked and fired whiff of grapeshot.

Soviets still showed restraint - October 30th statement and discussion of withdrawal until

(1) Wave of "White Terror" against hated AVH

(2) Abandonment of Commie Government, Warsaw Pact, Declaration

Neutrality convinced Kremlin this was Western backed Fascist reaction ~~and~~ endangering basic military security.

(3) Outbreak of fighting in Near East which

a) increased danger general war hence required a quick reestablishing military position Central Europe

b) Diverted world's attention -

[% of blame?]

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IIA Yugoslavia - willing to be part of above Commonwealth

Has swung from doubtful ally to potential foe but not reverted to former status.

Aspire to be moderators within bloc and between East-West

Will wobble but

Economically heavily tied - 175,000,000 million loan

Propagandistically on Soviet side - e.g. 30% trade with Bloc
have abandoned word satellite

Current Yugo - Soviet conferences clearly critical

Tito doing what he can to keep Soviets from backsliding
on liberalization. Will shortly know whether he succeeded

cf Nehru to Eden

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Lessons - too early to be positive - but

① Essential dismal failure in 10 years to make any headway with

workers, intellectuals, youth

Lost ground - Budapest vote, ^{40%} '45 - "0" '56

cf. French Revolution ^{collapse 1802-12} - people counted as for revolution led counter revolution.

- ② Power of bare hands versus modern arms. Tanks ^{more than} ~~less~~ Hitler '41 used to invade Russia.
- ③ Total unreliability Satellite armies
- ④ ^{Sov} End of friendship with Yugo.

But Hungarians got own freedom for 48 hours and the West wouldn't help them keep it.

Will the West help Poles, Jugs, Berliners? ? ?

EE remains much more dangerous breeding ground for WW III than ME

Inside Soviet Union:

Intelligentsia (define) disturbed - bulk of population ignorant true events.

Mild outbreaks trouble

But no discernible threat to security of regime

Changes in basic policies also doubtful though may be tougher in ideological front and easier on consumer goods

(Stricter party control - Molotov)

Increase housing and possibly consumer goods
~~Control - propaganda~~ - (to keep workers from making Communist cause with intellectuals)

But no return to Stalinist Terror yet - trying "psychological war" on students currently.

Leadership - Doubtless differences of opinion and recriminations.

-- So far --
But crisis seems to have induced unanimity rather than struggle

for scapegoat.
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Key to question of Soviet collectives endurance will be found not so much in foreign affairs in or outside the bloc but rather in their success or failure in their major announced goal: To develop Russia into the World's No. 1 industrial power.

Soviet leaders think and speak in terms of epochs and generally pride themselves on having perspective. E.g. Kaganovich's prediction that the world would be coming ^{to a} by the end of the 20th century. Kaganovich's statement to Senator Margaret Smith: "Not you or your daughter, but your granddaughter will be a Communist." Particularly they are looking at, and we should likewise, the "Post-war generation" 1945-1975, broken up into 6 five year plan periods. We stand toward the middle of that period and have certain rather clear readings on how they have fared and are likely to fare from here on out.

[Avoid talking in terms of GNP because so misleading in terms of power--will talk rather of industrial production (physical commodities produced in factories and shops) excludes agriculture, services, transportation and ^{construction}). Will also illustrate by specific industries.]

In '46 the Russians were badly beat up, 12% of our industrial output.

Next five years saw prodigious growth - but ready, and to us reassuring, explanations were at hand:

- a) Marginal efficiency of Cap and Repair
- b) Transfers from farm labor and army
- c) Plus loot from Germany, Satellites, Manchuria

Relative gains were spectacular - figured they'd soon taper off.

But in following 5 years 51-55 the special factors were largely gone yet grew industrially by 70% ^{Compounded} of US 23% (~~Compound~~ rate

12% vs 4%) (our own figures not Soviet claims). Fulfilled

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ambitious 5th Five Year Plan in 4 1/3rd years.

Why? Basically because of forced draft gross investment

26% USSR	$\frac{1}{2}$	to Industry
<u>15% US</u>	$\frac{1}{2}$	to Industry

Industrially still only 26% of ours; and our NATO countries' absolute margin widened.

So why get excited?

C Consider a few specific comparisons for past year 55

Consumer goods pitiful (it is here that their vaunted plans are chronically underfulfilled).

Automobiles a little over 1% of ours

Washing Machines	2%
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Radios and TVs	20%
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Shoes, textiles, etc. more comparable in quantity but
frightfully shoddy.

But in Heavy Industry -- Capital goods -- picture far different.

(Here plans are regularly overfulfilled and quality is generally up to Western standards)

Steel 40% of ours and closing the gap in absolute terms.

Freight cars $\frac{\text{equal}}{=}$ to us

Machine tools, the fundamental "multiplier," 105,000 to 85,000 U.S. (155)

GNP Military slice 14% in terms of rubles cf our 10%

But most effective sector hence in terms of end use is 21%
in other words if you take our values for what they buy with their
defense funds you get 38 billion out of 165 billion or equal to US

NB thus forced draft growth and heavy military spending has been
accomplished while maintaining basically deflationary trend in
prices-some fet?

Soviet Reorganization of Economic Management Dec 56 - May 57

Most important organization shakeup in 30 years of industrialization

Planning increasingly complicated by growth of economy

200,000 State enterprises 100,000 construction sites

Greater Moscows Industrial output now > whole Russians 25 years
ago.

Stalin's death a) eliminated clear cut arbiter of all conflicts

b) set loose strong social forces competing for
priorities - housing, ideas, consumers goods, etc.

Increasing scarcity of a) labor

b) low cost natural resources

Will focus decision making in fields of industry and construction
in economic regions (100) on pragmatic basis - prevents cross
hauling ludicrous "vertical integration"

Cut back some goals in favor of investment in resources, automation
and per worker efficiency. Local "initiative" stressed throughout.

Basic units = State of Com

Incentives stressed: Improvement in ghastly housing situation 13 x 13
for family of 4, and in dull diet. More consumer durables - in all
enough to ensure feeling of betterment

Now let's look at the near term future 5 years through 1960

New Pervukhin committee reexamining 6th Five Year Plan but with
injunction to continue to push

Heavy industry

Steel to 75 million tons

Stress on productivity increase (Training - Engineers,
Scientists, automation, Incentive wage systems).

Obstacles:

① Manpower Shortage

② Will consumer demands interfere - doubtful - soft-hard
goods perceptibly more each year - enough to allay
discontent

③ Agriculture - the "Achilles Heel"

1956 Record Harvest ^{121 MMT} cf. US 140 cf. 104 previous Sov
best record.

Hence, no absolute squeeze

Inefficient

End of Autarchy - no more limit than England & Germany in
19th Century.

Foreign Aid - trade programs - 1.2 billion total credit
deals.

Selling stuff where most efficient - ruble worth 25 cents

Buying raw materials which domestic product ^{most} inefficient -
agriculture, minerals rouble with 7 cents or less.

Hence, probably a net gain economically as well as adding
foreign policy.

So conclude they probably will continue to grow 7% GNP

12% Industrially. NB this is plan and experience has to date
always exceeded plan.

If we project US 51-55 record (best ever - steeper than Paley Com.

USSR
Then 1964 = 1/2 US
1970 = 3/4
1975 Tie ballgame

or from 1/8th to equal in a single generation.

well done in current "hook"
Meanwhile it is not too early to be casting a wary eye at Red China - originally looted but since '50 prodigiously aided by Soviet Capital Goods and technicians.

First Five-Year Plan 1952-7 ("Soon" to be completed) more successful than Russia's

90% of peasantry enrolled in collectives and convinced rather than liquidated. "Bloodless Revolution" - in progress anyway - a national resurgence kidnapped by local Commies.

Industrial Upsurge - admittedly from ^{ins:} ~~an~~ significant base
But far exceeding original estimates .

22% of pitiful GNP into investment

cf. ~~47%~~ top ambitious Indian Planners dare try.

Now 8th Congress announcing 2nd plan - 100% further increase over all

e.g. Steel up from 3 million to 12 million tons

machine tools - 60,000 units (3/4 US production)

1/2 total Industrial Production = Capital Goods

Will top Japan in '62

And intend to double every five years.

Hence, by '67 China with 30 million tons of steel will be roughly speaking in a 3-way tie with UK and W. Germany as the world's 3rd ranking industrial power.

The different degree of development of various branches, working class habits, production traditions, and so forth are all influencing factors. In this sense international trade has been and remains to an ever increasing degree an expression of the rational division of labor between the peoples.

- 3) Planned integration of Bloc economies from E China Sea to the Elbe.

Quite uppermost in last days of Stalin.

1952 - Talked of "disintegration of 'single all-embracing world market' and emergency of Communist countries as a revolutionary trading unit.

But even before he died (19th Cong. Oct '52) soft pedaled this and wooed trade of democracies

New leadership talks a wonderful game. Kabanov's brilliant performance at ECE Geneva last spring though occasionally growling about strategic trade controls. ef Khrushchev told US Senators "You want to buy our manganese but you want to sell us toys"

Commodity composition of Soviet trade gives interesting reflection of industrialization of USSR

- 1) Emergency of Industrial Equipment (machine tools, earth moving equipment) as major component Soviet exports 1955 22% with \$700 cf. 1938 5% \$13 million
- 2) Decline of grain from 20 to less than 10%
- 3) Variety of raw materials still balks largest semi-processed metal raw cotton up - (Best classed cotton in world according to Liverpool and Stockholm & West German sources)

Petroleum exports increasingly significant

Comparative advantage question -

Heavy industry constantly favored, most efficient sector, hence, prices internal and external closely competitive with those of west.

In other words Ruble in fact approaching value of a greater dollar in this field. Machine tools 22¢, metal forming 16¢, textile

manganese, should be used as desirable to obtain needed imports.

From time to time chimerical fears of Soviet "dumping" huge amounts of gold to discombobulate world markets crop up. Should be discounted both as to likelihood and effect. Ultimate sufferer would be USSR.

Finally lets look at the really new Phenom of last two years - Soviet entry into foreign lending field (soft loans at low interest) to underdeveloped nations - Hence, particularly in making comparisons with the US necessary to distinguish 3 arenas

Hockey
analogy -
Blue lines

Intra Bloc

US Backyard

Soviet Backyard

Noman's land

and 3 permutations
of competing
activities

US Equiv.

5 billion +

25 billion

+ 1 billion this past fall in credits,
moratoria, etc. to restless satellites

Percentage of GNP roughly comparable

N. Korea

S. Korea

3 yr. ec.
only
per cap.

\$400,000,000

\$700,000,000

\$50

\$30

NVN

SVN

Since
truce '54

\$425

\$100

4 times as much per capita

Of course these war-devastated areas but
new bldg. & cap pretty efficient.

Neutralist Areas

USSR

US

India

\$280

\$130

Indonesia

\$112

\$ 36

Neutralist Areas (Cont'd.)

	<u>USSR</u>	<u>US</u>
Afghanistan	\$157	\$25
Egypt	\$280	--
Syria	\$100	--
	<u>\$950</u>	<u>\$215</u>
(About 2 billion aggregate credits 470 '55)		(IDAB US '57)
(1.4 '56)		(Ec. aid 250)
(6 offers outstanding)		(Tech aid 140)
		(390)

If added Yugoslavia would be even more lopsided.

*
Total credits 1 B/ + countries

Arms 360 - Easy - alt is scrap metal (incredible US defense costing policies) 5 billion more available

* ave or \$300 per year net export of cap. + 600 million offers outstanding

Plays into each other's backyards

<u>USSR</u>	<u>OFFERS</u>	<u>US</u>
Iceland	\$ 11	Poland \$75 million only
Turkey	\$240	
Iran	\$ 3	and this is dubious in view of the opposition of the Neanderthals on Capital Hill.
Pakistan		
Latin America	<u>\$ 55</u> million	
	\$300 +	

The growing efficiency of Soviet Capital goods production, rising costs of its prime raw materials, plus Soviet ability to absorb imports of surplus foods, etc. means that Soviets can operate these programs with considerable economic benefit or at least without serious net economic disadvantage.

Despite troubles in Satellite areas, etc. - credit programs less than .2% GNP per year will continue and expand.

Will be touch competition (low interest, local currency or products in repayment) - shading beds, e.g. Syrian Oil Refinery. Skill fully tailoring offers to aspirations of each country.

Negotiating and executing expeditiously -"no strings".

Long term commitments, tactful handling of native sensibilities stressing mutuality of benefit Bloc specialists have reputation for achieving politics and prop for prof competence discipline and unobtrusive living. But over 95% of undeveloped areas trade is with free world. Impact thus is greater by its quality and selectivity than through aggregate size.

We will have to find a means to counter it to flex the solid banking nationale of ExIm and World Bank. That's what Sec. Dulles is now (8 Apr) requesting of the Congress.

Obviously sound finance and private capital desirable but in their absence US Government must stay in the poker games in Afghan, in Mid & Far East or will see there markets monopolized by Soviets and almost certainly witness the inevitable political monopoly of Communism follow.